PRICE RECIPROCITY ISSUES
RTO WEST SEAMS WORK GROUP

Order 2000 says, "We will continue to encourage reciprocal waivers of access charges between RTOs as long as they are reasonable in terms of cost recovery, cost shifting, efficiency, and discrimination." FERC's interest in price reciprocity among RTOs in Order 2000 comes from the same source as its interest in eliminating pancaking within RTO boundaries, that is, expanding generation markets.

The price reciprocity issues among RTOs are the same as those that exist within an RTO that is attempting to eliminating pancaked rates. There are two ways of looking at the issues, focusing on cost shifting and focusing on efficiency. FERC talks simply about eliminating pancaked access charges to recover capital costs. This could be done in a number of ways, some of which result in cost shifting and some of which do not. In either the inter-RTO case or the intra-RTO case, the elimination or minimization of cost shifting requires that the entity that used to pay some of the costs of a second (through wheeling charges) continue to pay them, even if the charges for individual transactions across the second's system are eliminated.

From an economics perspective, it is often more crucial to eliminate multiple (but also single) access fees that recover (non-marginal) sunk capital costs on a marginal basis, i.e., on a volumetric basis. The primary barrier to efficiency is recovery of sunk costs on a marginal basis.

If both of these perspectives are adopted, and the trade between RTOs is generally unbalanced, i.e., the sales into one region are systematically different from the sales into the other region, then the task becomes one of calculating the total dollars going each way and ensuring that the region that would have paid net wheeling charges continues to pay the total net dollars to the other region. This is the same principle that was used in the "paid to/received from" calculations IndeGO used within the region.